

Aircastle LTD
Form 10-Q
September 20, 2006
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2006

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File number 001-32959

AIRCASTLE LIMITED

(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of
incorporation or organization)
300 First Stamford Place, 5th Floor, Stamford, CT
(Address of principal executive offices)

98-0444035
(IRS Employer
Identification No.)
06902
(Zip Code)

Registrant's telephone number, including area code (203) 504-1020

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). YES NO

Number of shares outstanding as of September 15, 2006: 51,511,754 common shares, par value \$0.01 per share.

Aircastle Limited and Subsidiaries

Table of Contents

	Page No.
Part I. – Financial Information	
Item 1. Financial Statements	
<u>Consolidated Balance Sheets as of December 31, 2005 and June 30, 2006 (unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Operations for the three months and six months ended June 30, 2005 and 2006 (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2005 and 2006 (unaudited)</u>	<u>5</u>
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>39</u>
<u>Item 4. Controls and Procedures</u>	<u>42</u>
Part II. – Other Information	
<u>Item 1. Legal Proceedings</u>	<u>42</u>
<u>Item 1A. Risk Factors</u>	<u>42</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>42</u>
<u>Item 3. Defaults upon Senior Securities</u>	<u>43</u>
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	<u>43</u>
<u>Item 5. Other Information</u>	<u>43</u>
<u>Item 6. Exhibits</u>	<u>44</u>
<u>Signatures</u>	<u>45</u>

2

Table of Contents

Part I. – Financial Information

Item 1. Financial Statements

Edgar Filing: Aircastle LTD - Form 10-Q

Aircastle Limited and Subsidiaries
 Consolidated Balance Sheets
 (Dollars in thousands, except share data)

	December 31, 2005	June 30, 2006 (unaudited)
ASSETS		
Cash and cash equivalents	\$ 79,943	\$ 90,976
Accounts receivable	3,115	6,229
Debt securities, available for sale	26,907	120,034
Restricted cash and cash equivalents	40,652	111,407
Flight equipment held for sale	54,917	—
Flight equipment held for lease, net of accumulated depreciation of \$14,685 and \$36,037	746,124	1,120,452
Leasehold improvements, furnishings and equipment, net of accumulated depreciation of \$165 and \$450	1,529	1,890
Fair value of derivative assets	3,608	11,555
Aircraft purchase deposits	3,465	32,987
Other assets	7,272	23,063
Total assets	\$ 967,532	\$ 1,518,593
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Borrowings under credit facilities	\$ 490,588	\$ 262,435
Borrowings from securitization	—	560,000
Accounts payable, accrued expenses and other liabilities	12,038	27,116
Payable to affiliates	105	—
Lease rentals received in advance	6,241	8,887
Repurchase agreements	8,665	84,444
Security deposits and maintenance payments	37,089	74,620
Fair value of derivative liabilities	1,870	—
Total liabilities	556,596	1,017,502
Commitments and contingencies - Note 11		
SHAREHOLDERS' EQUITY		
Common shares, \$.01 par value, 100,000,000 shares authorized, 40,000,000 shares issued and outstanding at December 31, 2005; and 44,685,200 shares issued and outstanding at June 30, 2006	400	447
Additional paid-in capital	400,009	445,349
(Accumulated deficit) retained earnings	(1,237)	14,994
Accumulated other comprehensive income	11,764	40,301
Total shareholders' equity	410,936	501,091
Total liabilities and shareholders' equity	\$ 967,532	\$ 1,518,593

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Table of Contents

Aircastle Limited and Subsidiaries
 Consolidated Statements of Operations
 (Dollars in thousands, except per share amounts)
 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2006	2005	2006
Revenues				
Lease rentals	\$ 4,335	\$ 39,627	\$ 6,197	\$ 70,998
Interest income	957	2,460	1,282	4,101
Total revenues	5,292	42,087	7,479	75,099
Expenses				
Depreciation	2,000	11,848	3,462	21,763
Interest (net of interest income of \$177 and \$1,742 for the three months ended and \$204 and \$2,805 for the six months ended June 30, 2005 and 2006, respectively)	1,300	13,164	1,613	20,881
Selling, general and administrative (including non-cash share based payment expense of \$82 and \$5,393 for the three months ended and \$91 and \$6,685 for six months ended June 30, 2005 and 2006, respectively)	2,299	10,086	3,847	16,040
Other expenses	485	276	554	917
Total expenses	6,084	35,374	9,476	59,601
Income (loss) from continuing operations before income taxes	(792)	6,713	(1,997)	15,498
Income tax provision	84	1,663	253	2,667
Income (loss) from continuing operations	(876)	5,050	(2,250)	12,831
Earnings from discontinued operations, net of income taxes	—	—	—	3,399
Net income (loss)	\$ (876)	\$ 5,050	\$ (2,250)	\$ 16,230
Basic earnings (loss) per share:				
Income (loss) from continuing operations	\$ (.02)	\$.12	\$ (.06)	\$.30
Earnings from discontinued operations, net of income taxes	—	—	—	.08
Net income (loss) per share	\$ (.02)	\$.12	\$ (.06)	\$.38
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	\$ (.02)	\$.11	\$ (.06)	\$.30
Earnings from discontinued operations, net of income taxes	—	—	—	.08
Net income (loss) per share	\$ (.02)	\$.11	\$ (.06)	\$.38

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Table of Contents

Aircastle Limited and Subsidiaries
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2005	2006
Cash flows from operating activities		
Net (loss) income	\$ (2,250)	\$ 16,230
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities (inclusive of amounts related to discontinued operations):		
Depreciation	3,462	21,763
Amortization	1,094	1,893
Deferred income taxes	49	805
Accretion of purchase discount on debt securities	(297)	(382)
Non-cash share based payment expense	91	6,685
Cash flow hedges reclassified into earnings	—	(172)
Ineffective portion of cash flow hedges	—	(858)
Gain on the sale of flight equipment held for sale	—	(2,240)
Changes in certain assets and liabilities:		
Accounts receivable	(628)	(3,114)
Restricted cash and cash equivalents	(7,565)	(54,613)
Other assets	32	(804)
Accounts payable, accrued expenses and other liabilities	1,988	916
Payable to affiliates	182	(172)
Lease rentals received in advance	534	2,646
Security deposits and maintenance payments	2,564	37,531
Net cash (used in) provided by operating activities	(744)	26,114
Cash flows from investing activities		
Acquisition and improvement of flight equipment	(118,752)	(385,433)
Disposition of flight equipment held for sale	—	57,157
Purchase of debt securities	(22,981)	(92,726)
Leasehold improvements, furnishings and equipment	(452)	(602)
Deposits on aircraft purchases	(2,080)	(29,522)
Principal repayments on debt securities	—	3,589
Proceeds from sale of debt securities	3,294	—
Net cash used in investing activities	(140,971)	(447,537)
Cash flows from financing activities		
Issuance of common shares	—	38,702
Proceeds from securitization	—	560,000
Credit facility borrowings	104,471	294,730
Credit facility repayments	—	(522,883)
Deferred financing costs	(1,850)	